

Audit Report
CAL-Card Program



Prepared by:
CAL FIRE Program Accountability Unit
June 2008

Preface

The CDF Business Services Office (BSO) manages all purchasing programs, CAL-Card included. Their CAL-Card program responsibility includes, but not limited to oversee the compliance with DGS Program Administrative, as well as the State Purchasing program requirements.

The CDF Program Accountability Unit (PAU) performed a compliance audit of the CAL FIRE's CAL-Card Program

We appreciate the cooperation extended by the Business Services Office. We thank them for their patience and for answering our requests for documentation.

This Report presents the results of our review.

Staff:

George Alves, Associate Management Auditor
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Auditor's Report

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We have made a study and evaluation of the CAL-Card Program of the Department of Forestry and Fire Protection (CAL FIRE) in effect as of July 2006. Our study and evaluation was conducted in accordance with The International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The Department's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code, Sections 13404 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the CAL-Card Purchasing Program. Our review identified reportable weakness that is described in the Findings and Recommendations Section of this report.

June 30, 2008



Bill Robertson, Acting Chief
Program Accountability Unit

Findings and Recommendations

Finding # 1: CAL-Card Charges are not Proper or Approved

A review of 99 selected CAL-Card transactions revealed the following exceptions:

- GPS software was purchased without prior IT approval on one occasion
- One CAL-Card statement did not include the final page. The final page is important because it indicates daily purchase limits, 30-day purchase limits, and has the approving official signature as approval of charges
- On one occasion charges for firefighter meals did not include a meal sign-up sheet of employees who ate restaurant meals
- Coding errors occurred such as water for firefighters for incidents charged to minor equipment, and items such as glue, gloves, drill bits and a case of AAA batteries charged to stamps; five newly purchased camper shells were coded to vehicle maintenance where minor equipment may have been more appropriate, and pillows and pillowcases were charged to minor equipment where quartering and housekeeping may have been more appropriate

Criteria

Information Technology Procurement Guidelines, Chapter One, Section 1.5 states that requests for nonstandard items must be submitted to Sacramento HQ ITS Procurement on the ITS-004 Purchase Request Form. All non-standard hardware and software purchases require additional technical review and approval by either ITS Customer Services or Enterprise Architecture, prior to processing the purchase request. GPS maps are nonstandard items because they do not appear on the Standard Procurement List (SPL).

CAL FIRE CAL-Card Handbook Part 4, Section 26.B.1 states cardholders are required to maintain at least one copy of the Statement of Account and support documentation for each billing cycle that has charge transactions for current plus two years. The final page of the statement is important because it indicates daily purchase limits, 30-day purchase limits, and has the approving official signature as approval of charges.

Government Code Section 13403, Paragraph (3) describes elements of internal counting and administrative control systems as "a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures".

CAL FIRE Accounting Handbook, Section 3762.1 states to provide information required by the CALSTARS cost accounting system, the following entry must be made on each expenditure document: Object Code, enter the digits that identify the appropriate object of the expenditure.

Cause

Employees were not aware that GPS maps require prior approval from Information Technology Procurement; they did not know it fell under IT guidelines.

A copy of the last page of the statement, which contains approving official signatures, was not made; the original is provided to State Controller's Office (SCO), presumably with approval, and the cardholder and accounting copies are the same, without approval.

Team Leaders do not have employees sign the emergency meal sheet.

Coding accuracy of invoices is not reviewed prior to payment.

Effect

When purchases are not properly approved, CAL FIRE's delegated purchasing authority granted by DGS is put at risk and could potentially limit our purchasing authority.

When copies of approved statements are not maintained, it is difficult to determine what purchases were made, if they were appropriate, and if they were approved. It would be very hard to detect any fraudulent purchases that may have been made.

When meal sheets are not completed for emergency meals, it is difficult to determine the accuracy of the invoice and the number of meals actually consumed.

When purchases are miscoded, actual expenditures are not accurately reflected and may cause the department to report incorrect financial statements.

Recommendations:

- Purchases that meet Information Technology (IT) guidelines should be approved by IT
- Complete and accurate records of CAL-Card statements should be maintained
- Meal sheets should be completed for emergency meals
- Object codes should accurately reflect the object of the expenditures.

Auditee's Response:

The first three recommendations are already being addressed in the certification training. Information Technology (IT) purchases are purchased by IT under their purchasing authority. If the purchase of an IT item is delegated to a cardholder, they are required to obtain a prior approval form (CALFIRE 13) from IT prior to making the purchase. Information Technology Services, Procurement Unit has reminded the IT Field Coordinators and Customer Services staff that these types of purchases fall under the IT purchasing authority and that they require prior approval. In turn, the IT Field

Coordinators and Customer Services staff has reminded their customers of this requirement.

The record retention schedule for purchase documents, including copies of CAL-Card statements and all supporting receipts, and documentation supporting transactions is also addressed in the certification training. Cardholders are instructed to keep copies for three years from the date the statement was paid and up to ten years if transactions are for a fire that is in litigation. Also covered in the training, is the requirement to have an Emergency Meal – Motel Purchase Report (Form AO-341) to support all restaurant and motel transactions. Cardholders are not accurately using the object code listing as mandated by the department's policy and procedures, which are outlined in the 3600 Accounting Procedures Handbook.

It is recommended that with future audits, since CAL CARD is a decentralized program, the Regions be given an opportunity to also respond to these issues, which involve their staff and their area of responsibility.

Actions:

These recommendations are already addressed in the department's certification training. However, it will be reemphasized in training that cardholders and approvers are accountable for ensuring that prior approval and supporting documentation is acquired and maintained in the purchase file. They will also be reminded to utilize the tools that are available to them, such as the Object Code List located in the 3600 Accounting Procedures Handbook to ensure the accurate coding of transactions.

The BSO will also continue to work collaboratively with the department's Accounting Office (DAO) CAL-Card Unit, Unit Program Coordinators, and Unit Finance to document infractions and send notification to the cardholders, approvers, Administrative Officers, and Unit Chiefs to inform them of violations. In addition to this, a departmental suspension and revocation policy to further enforce compliance with established program guidelines is currently under review.

Lastly, Business Services would like to recommend that with future audits, since CAL CARD is a decentralized program, the Regions be given an opportunity to also respond to these issues, which involve their staff and their area of responsibility.

Finding # 2: Inadequate Separation of Duties over CAL-Card Function

CAL-FIRE's CAL-Card program is part of the Business Services Unit. There are two CAL-Card Coordinators in Business Services that have several duties over the program. Review of duty statements revealed duties that may be incompatible with each other. Examples of duties are:

- Training employees to become certified purchasers
- Updating training curriculum
- Open new accounts
- Establish purchasing limit on card
- Increase credit limit amounts
- Decrease credit limit amounts
- Suspend credit card accounts
- Close credit card accounts
- Re-open closed credit card accounts
- Authorize override approval
- Purchasing
- Approve purchases
- Maintain list of cardholders
- Maintain list of approving officials (Approvers)

Criteria

CAL FIRE Material Management Handbook section 2606.21 states, "Departments with any type of purchasing authority must always be mindful to maintain sufficient separation of duties in order to reduce the risk of error or fraud in the department's purchasing program.

Key duties and responsibilities should be segregated to separate the responsibilities for: conducting the procurement, approving purchase documents, acknowledging and receiving goods and services, approving invoices, and preparing payments.

Note: No one person should control more than one of the key aspects of a procurement activity."

Cause

Non-compatible duties assigned to coordinators; the CAL-Card program expanded larger than anticipated and Business Services does not have enough employees to separate the duties.

Effect

When one person has complete control over a function, for example the ability to open an account, purchase using the account, approve purchases to the account, reconcile account statement and close the account, the potential for fraud exists.

CAL FIRE has approximately 2,500 credit cards, the largest number of credit cards issued by the vendor. With limits that can reach \$250,000, the financial exposure is great.

Recommendations:

- Duty statements should be reviewed for Business Services CAL-Card Coordinators, and conflicting duties should be reassigned.

Auditee's Response:

Most departments have a CAL CARD unit located within their department's Business Services Office that is solely dedicated to its CAL Card program. In CAL FIRE's case, the Business Service Office does not have a CAL CARD Unit nor does it have the positions to support this program. Attempts in recent years have been made to acquire additional administrative type positions through the Budget Change Proposal (BCP) process. Unfortunately, the BCPs were denied by the Department of Finance during 2008-09 budget discussions, resulting in no additional staffing to support this critical function.

It is evident that a CAL CARD Unit needs to exist within CAL FIRE's Business Services Office in order to properly manage this decentralized program. Absent these positions, the problems that are currently occurring (i.e., misinterpretations of what can or can not be purchased) will continue to exist and may worsen simply due to the fact that CAL FIRE has the largest credit card program in the state but does not have the administrative staffing to properly support this program.

Currently, the Business Services Office, Procurement Unit consists of a Business Services Officer III who serves as the Departmental Procurement Officer, CAL-Card Coordinator and Supervisor of forms, issuance, records management, AB-75 and incident recycling; an Associate Management Analyst that serves as the Assistant Procurement Officer, CAL-Card Coordinator, updates procurement and CAL-Card handbooks and curriculum development, and unit training coordinator; and one Associate Governmental Program Analyst that is responsible for the department's badge purchasing, inventory and distribution, promotions and retirements, PIA waivers, CALFIRE 13s, and Merit Award Program. He also serves as Procurement/CAL-Card Auditor and will be establishing an audit plan to conduct random procurement and CAL-Card audits throughout the state beginning early Fiscal Year 08/09.

Actions:

Nothing further can be done until additional position authority is provided to address the workload.

Finding # 3: Lack of Listing for Approving Officials and Unit Coordinators

CAL FIRE's Business Services Office does not maintain the lists of Unit Coordinators and Approving Officials during the review period, FY 2005/06. However, as per request from the State Controller's Office, Business Services Office created and provided SCO with a current 2007-2008 (CAL-Card) Approvers List

Criteria

CAL-Card Handbook, Part 1, Section 2, states that "the CAL FIRE CAL-Card Departmental Coordinator will be the liaison between I.M.P.A.C. Card Services and the various users of the program within CAL FIRE.... The initial contact shall be made with Unit Coordinators. This Coordinator can be in direct contact with any of the participants of the program to carry out responsibilities".

And, Section 3 of the same Handbook explains "... The Unit Coordinator is the liaison between Level 4 Group(s) and the CAL FIRE CAL-Card Departmental Coordinator in Sacramento Business Services and DAO..."

Cause

It is not clear why the CAL FIRE's CAL-Card Coordinator did not maintain the list of the approvers and Unit Coordinators for the 2005/06 review period.

Without the lists of the Approving Officials, it is difficult to verify:

- proper approval of purchases,
- separation of duties

The Unit Coordinators list is important for Accounting Office to communicate with the approver when uncertain or disputable issues arrived and also to provide participants contact/communication regarding training, report of lost/stolen cards

Recommendations:

- Current list of Unit Coordinators should be maintained at all levels - the Unit, related Region Offices and by the CAL-Card Departmental Coordinator at the Business Services Office
- Departmental CAL-Card Coordinator should always maintain a list of CAL-Card approvers. The current list provided to the State Controller's Office should also be kept current.

Auditee's Response:

The above mentioned recommendations were implemented in January 2008. As such, Business Services now maintains a list of statewide approvers and Unit program coordinators and each unit is responsible for maintaining a list for their unit.

Actions:

This issue has been resolved; therefore, no further action is necessary.

Finding # 4: Credit Limits Not Reduced For CAL-Card with any Activity

CAL FIRE is the largest US Bank credit card customer with approximately 2,300 credit cards issued in FY 2005-06. The next largest is CalTrans with approximately 1,800 cards. There are over 130 state agencies in the CAL-Card program. Cards can have credit limits of up to \$250,000 each, but most do not.

Criteria

CAL FIRE CAL-Card Handbook, Part 1, Section 2 states each card will have a 30-day dollar limit not to exceed \$250,000. (Most cards have limits significantly less than \$250,000)

Government Code Section 13403(a)(3) states the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Business Services has identified the requirement to reduce credit limits but have not developed procedures or initiated the process.

Effect

CAL FIRE is exposed to a great deal of available credit to cardholders; this exposes the Department to possible fraud.

Recommendations

- Business Services should develop procedures to reduce credit limits for cards with no activity
- Business Services should initiate credit limit reductions to mitigate the credit exposure of the Department

Auditee's Response:

The above recommendations were implemented by Business Services during January 2008. We lowered the limit to \$1000 on all cardholder accounts that had not been activated as well as those cards that did not have activity during the prior six months.

Actions:

This issue has been resolved; therefore, no further action is necessary.

Finding # 5: Large Number of CAL-Card Issued and Cardholder can have More than One CAL-Card

There are at least 238 employees who were granted more than one purchasing CAL-Card; some have up to 11 CAL-Cards. 2,293 CAL-Cards were issued for approximately 5,400 CAL FIRE Employees

Criteria

Government Code Section 13401(b)(3) states that "All levels of management of the state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse and waste of government funds."

And Section 13403(a)(3) states the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

Cause

Following were the reasons for assigning more than one CAL-Card to employees:

- The cards are issued for different purposes: normal day-to-day purchasing activities and purchasing activities during incident assignment.
- Incident purchasing activities can be validated/controlled by the ASSIGNED Incident (Finance) Team rather than by cardholder's assigned approving officials in their own Unit. There were 10 Incident Command Teams during FY 2005/06 review.
- All paper works are to be completed at the incident camp and not to be submitted to their Unit's Finance personnel. This situation would help the workload of the Finance personnel where irregular activities might not be discovered

Effect

It would be difficult to control and minimize fraud, errors, abuse and waste of government funds with a large number of CAL-Cards issued. Also, it would be more complex to monitor expenditures, especially during an incident

Recommendations:

CAL FIRE should re-assess the needs for issuing 2,293 CAL-Cards to the employees

The issue of assigning more than one CAL-Card to an employee also should be evaluated.

Auditee's Response:

The department currently has the largest number of CAL CARDS in comparison to other State agencies. Currently, approximately 2,400 CAL CARDS are issued to CAL FIRE employees. Actually, this is a concern the department is currently focusing on. In fact, a working group consisting of statewide departmental representatives was created in 2008 to evaluate the program in its entirety. Some of the areas being evaluated entail determining the need for the number of cards required throughout the department as well as which purchasing positions (i.e., Forestry Logistic Officers, Purchasing Specialist CAL CARD (PURCs), Incident Command Team Members (ICT) necessitate cards to carry out the department's procurement needs. This program is currently structured in a manner where some employees have multiple cards (i.e., team cards, incident cards, and general cards). The single transaction limit per card varies from \$500 to \$50,000. The maximum dollar limit on the cards ranges from \$1,000 to \$350,000 per month per card. This causes an immense liability to the department.

Actions:

The department's goal is to improve overall efficiency within CAL FIRE's CAL CARD Program and will therefore continue efforts through the working group to pursue methods to restructure and enhance the department's program. As mentioned previously, concentration on reducing the number of cards and which positions the cards are distributed to are areas of focus.

PAU's Response:

Per Material Handbook Sections 2601.1 and 2606.18.2, Business Services, Sacramento's responsibility is to manage the CAL FIRE's procurement and the CAL CARD program.

The Working Group mentioned in the response is only an advisory group, created to report to the Executive the following:

- current issues with the Cal-Card Program,
- options for program improvement,
- steps the department can take to make the improvements